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July 3, 1995

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, DC 20554

DOCKET FILE COPY ORIGINAL

Dear Mr. Caton:

Re: *RM-8640, In Support of USTA's Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Eliminate Detailed Property Records for Certain Support Assets*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of their "Comments" in the above referenced proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

Sherry Herauf

Enclosure

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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In the Matter of Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Eliminate Detailed Property Records for Certain Support Assets	RM-8640

Comments by Pacific Bell and Nevada Bell in Support of USTA's Petition for Rulemaking

Pacific Bell and Nevada Bell respectfully submit these comments in response to the Commission's Public Notice concerning USTA's Petition for Rulemaking in the above captioned docket.[1] USTA proposes that the Commission amend Part 32 to eliminate detailed continuing property records ("CPR") for certain support asset accounts.[2] Instead of keeping detailed CPR for those accounts, carriers

[1] United States Telephone Association Files a Petition for Rulemaking to Amend Part 32 of the Commission's Rules to Eliminate Detailed Property Records for Certain Support Assets, Public Notice, May 10, 1995.

[2] The support asset accounts include Accounts 2115, Garage Work Equipment; 2116, Other Work Equipment; 2122, Furniture; 2123, Office Equipment; and the personal computers and peripheral equipment in Account 2124, General Purpose Computers.

would be permitted to use a vintage amortization level ("VAL") property record system.[3] We support USTA's Petition because the VAL method will meet the Commission's accounting needs while reducing the administrative cost of the current CPR system which can no longer be justified for most large local exchange carriers ("LECs").

I. The Administrative Cost Of Maintaining A Detailed CPR System Is Not Justified

The rationale for and public interest benefit of detailed property records has been eroded for price cap LECs. Incentive regulation eliminates the primary need for carriers to keep detailed CPR. Under rate of return regulation, the ratebase was an important element in determining a carrier's rates, rate of return, and any overearnings. Detailed asset information provided a means to verify a carrier's rate base. However, under price caps, a carrier's costs (including its assets) have limited, if any, effect on its rates. Costs only influence a carrier's sharing level. For a price cap company that has elected the "no sharing option", costs are irrelevant to its rates.

Thus, it is not clear how detailed CPR record-keeping by price cap carriers benefits consumers, ratepayers or regulators. It is clear, however, that maintaining a detailed CPR system is costly. We must keep detailed records on hundreds of

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[3] Under VAL, the net book value of existing assets would be placed in a VAL group and amortized on a straight-line basis over the remaining life that results from the asset life chosen from the Commission approved range of lives. New assets would be placed in a VAL group for each vintage for each account and amortized in the same manner. When the assets in a VAL group are fully amortized, the assets and their associated reserves would be removed from the carrier's books. Salvage proceeds would be reflected as a decrease in amortization expense; the cost of removal would be an increase in amortization expense.

thousands of items. Our records show that as of September 1993, we maintained detailed asset information on approximately 344,000 items. These items represent less than 6% of our $25B ratebase but the detailed record-keeping requirement involves a disproportionate amount of personnel and system resources. We estimate that we could save approximately $900,000 annually (excluding mainframes) by adopting the VAL system for just the accounts subject to USTA's Petition. The growing competitiveness of the telecommunications industry demands that we eliminate unnecessary expenditures. LECs increasingly compete with companies that do not have the same financially burdensome regulatory requirements. Unnecessary regulation and costs put LECs at a competitive disadvantage. The administrative burden of detailed CPR is not justified in view of the changes in rate regulation and in the telecommunications market. CPR does not provide obvious benefits to either ratepayers or regulators and is an unnecessary expense for carriers.

Finally, the adoption of VAL will eliminate the administrative burden of adjustments resulting from future accounting rule changes. For example, additional record-keeping is required to amortize the embedded base when the Commission increases the expense limit for certain assets.

II. Detailed Property Records Do Not Serve A Security Function

The Public Notice suggests that detailed CPR is necessary to safeguard support assets. We do not agree. Detailed CPR does not improve the internal control of assets. Assigning asset and location codes for record keeping purposes will not prevent damage to or loss of support assets. Security measures protect and preserve assets. Our security measures and procedures are well developed. The System Instructions on security exceed 100 pages and are distributed companywide. Concerns about physically protecting support assets should be met by security measures, not by detailed record keeping.

Moreover, the extent of record keeping for internal business needs should be a business decision, not a regulatory requirement. If the requirement for detailed CPR is eliminated, carriers will still have information on the existence and cost of their assets. Our internal procedures fully document asset purchases and provide detailed information. We have extensive instructions on purchasing standards - approximately 250-300 pages. If detailed CPR is eliminated, we will continue to adhere to our system instructions and maintain initial purchasing records, such as invoices, bills of lading, receipts, payment vouchers and other inventory controls related to placing assets into service. Our voucher information alone requires verification of an asset's cost, its initial location and its purchase date. We will continue to require and retain this essential voucher information. By eliminating detailed CPR we will not maintain the history of an asset's subsequent use, but we have demonstrated that information is no longer useful or necessary under price cap regulation. Eliminating detailed CPR, however, will eliminate the high cost, labor intensive activity of entering assets into a detailed property record database, and maintaining that information throughout the assets' lives.

Records needed for depreciation will continue to be available. But, by eliminating the need to track each asset's retirement, a VAL property record system will cut the administrative cost of depreciation procedures significantly with no significant change in annual depreciation expense. For example, for 1988-1994, VAL depreciation expense would be within 2 1/2 % of the amount calculated under our current rules. Of course, over time, accumulated depreciation would be the same under either methodology. Detailed information on retirement units of price cap companies choosing the "no sharing" option is irrelevant for ratemaking and should be of no significance to the Commission.

III. Eliminating Detailed CPR Furthers The Commission's Intent To Simplify And Eliminate Unnecessary Regulation And Is In Keeping With The Increasingly Competitive Environment In Which Carriers Provide Service

USTA's Petition is another logical action to implement the Commission's objective to revamp regulation in response to the significant changes in technology and emerging competition in the local exchange market. The Commission's recognition of these changes has led to fundamental reforms in ratemaking and accounting regulations. For example, price caps were designed to mimic the incentives of a competitive market. The Commission's recent simplification of the depreciation prescription process is part of its effort to reduce unnecessary regulatory burdens and their associated costs.[4] Similarly, the Commission has substantially reduced the

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[4] *Simplification of the Depreciation Represcription Process*, CC Dkt No. 92-296, Notice of Proposed Rulemaking, FCC 92-537, December 29, 1992, para. 1.

regulatory burden on carriers that remain subject to rate of return regulation by recent fundamental changes which simplify those costly, time consuming proceedings.[5]

The Commission's efforts support the Administration's regulatory reform initiative. Adopting USTA's proposal would be in keeping with Executive Order 12866 that directs administrative agencies to reduce industry's regulatory burden and to determine whether regulations have become unjustified or unnecessary as a result of changed circumstances.[6] Unburdening industry of unnecessary regulation was also a predominate theme in Chairman Hundt's recent statement to the House.[7] The USTA proposal is exactly the kind of change that the Chairman solicits. This proposal is a response from the industry for a way that the Commission could lighten or eliminate the burdens on us without any compromise in the Commission's policy goals. The Commission should seize this opportunity to continue its efforts to eliminate an unnecessary regulatory requirement and reduce an unnecessary regulatory burden.

Conclusion

For the reasons above, we urge the Commission to establish a rulemaking which would permit price cap carriers to adopt the VAL group system

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[5] *In the Matter of Amendment of Parts 65 & 69 of the Commission's Rules to Reform the Interstate Rate of Return Represcription and Enforcement Processes*, CC Dkt. No. 92-133, 77 Rad. Reg. 2d (P&F) 615 (1995).

[6] Exec. Order No. 12866, 3 C.F.R. 638 (1994).

[7] Chairman Reed E. Hundt, Federal Communications Commission, Reauthorization of the FCC, Address Before the Subcommittee on Telecommunications and Finance, U.S. House of Representatives (June 19, 1995).

proposed by USTA. However, if the Commission finds value in retaining the detailed CPR requirements, we suggest that the Commission reduce the extent of detailed CPR. USTA's Petition to increase the expense limit from $500 to $2000, about which the Commission has also invited comment, will accomplish just that.[8]

Respectfully submitted,

PACIFIC BELL
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Date: July 5, 1995

[8] We will provide further comment on this matter in our response to the Commission's NPRM on USTA's expense limit petition. *Revision to Amend Part 32, Uniform System of Accounts for Class A and Class B Telephone Companies to Raise the Expense Limit for Certain Items of Equipment from $500 to $750*, CC Dkt No. 95-60, RM 8448, *Notice of Proposed Rulemaking*, released May 31, 1995.